

CORPORATE GOVERNANCE COMMITTEE
12 MAY 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE AUDIT PLAN 2015-16

Purpose of the Report

1. The purpose of this report is to provide members with information about the outline Leicestershire County Council Internal Audit Service (LCCIAS) Audit Plan 2015-16 for the County Council and internal audit resource allocated to other organisations.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, with a specific function to consider the annual Internal Audit plan, which outlines where audit focus will be in 2015-16. Internal audit is an essential component of the Council's corporate governance and assurance framework

Construction of the 2015-16 Plan

3. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the County Council's agenda and priorities. The plan must take into account the requirement for the HoIAS to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment. The scope of internal audit activity should be wide ranging.
4. The PSIAS advise that when constructing the plan, the HoIAS should take into account the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. For a number of years now LCCIAS has conducted rigorous audits of the risk management system. Outcomes have provided increased confidence in the Council's approach to identifying, evaluating and managing risk, which in turn allowed for more reliance to be placed on management's risk assessments rather than 'audit needs' assessments.

5. From July 2014 the HoIAS took on responsibility for the administration, development and monitoring of the Council's risk management framework. In preparation for the 2015-19 'Medium Term Financial Strategy', at its meeting in February 2015, this Committee considered the findings of a review and revision of the corporate risk management policy and strategy. In conjunction with that review, an audit of the Council's risk management maturity concluded that the risk maturity had improved to between levels 3 ("Working") and 4 ("Embedded and Working"), that there had been significant progress since the previous assessment and by and large a robust framework exists underpinning risk management within the Council.
6. Overseeing that the corporate framework is being consistently applied, reviewing the quarterly updating of department risk registers and confirming their consideration by departmental management teams and producing the Corporate Risk Register for review by Corporate Management Team and this Committee, ensures the HoIAS is up to date with the risk environment. This allows internal audit resource to be better targeted and flexed in accordance with major shifts in the risk environment.
7. The HoIAS also took on responsibility in July 2014 for developing an approach to countering the risk of fraud and corruption. A significant amount of work has been done since then to review, revise and develop a suite of anti-fraud and corruption policies, procedures and guidance, which should enable the Council to conform to the principles CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). An exercise to identify fraud risks to the Council was conducted and this will facilitate a programme of targeted counter fraud audits and related activity.
8. The PSIAS also require that the risk-based plan should explain the HoIAS' approach to using other sources of assurance when forming the annual internal audit opinion and any work required by LCCIAS to place reliance upon those other sources. The HoIAS is also now responsible for compiling the Annual Governance Statement. Part of this process includes receiving and reviewing departments' annual assurance statements. Directors are requested to record specific examples of other sources of assurance both internal and external (e.g. independent assurance from inspections, compliance reviews etc), the objective and scope of the assurance, when it occurred and what was the outcome/overall opinion.
9. Some useful information has been obtained, especially in Corporate Resources Department which is piloting the development of an 'assurance map'. However, there is scope to improve on what has so far been identified. The plan contains a specific focus on developing this concept especially in terms of evaluating internal assurance provided by the Transformation Unit.

10. In addition, each individual audit engagement requires the auditor to identify other assurances. Where these are considered as fundamental to the achievement of objectives, then a view on the robustness of the assurance will be formed. To assist this and avoid subjectivity, guidance developed by the Institute of Internal Auditors will be adopted.
11. Additionally, the HoIAS has scope to plan audits that are either outside of, or 'cut across' risk register boundaries, for example:
 - a. the requirement to undertake audits each year on the key financial systems which the Council's external auditors places reliance on to enable it to reach an opinion that there is no material misstatement in the financial accounts;
 - b. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Audit Commission;
 - c. certifications of returns for government departments and funding bodies;
 - d. conducting specific follow up audits where high importance (HI) recommendations have previously been made to ensure action has been taken and the risk has been mitigated;
 - e. general advice on governance, risks and controls; researching County related emerging issues, and consulting with departments and reporting back to them, the Chief Financial Officer (CFO) and the Corporate Governance Committee;
 - f. a contingency remains for any unplanned audit work, including suspected frauds and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.
12. The 2015-16 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that it is only a statement of intent and there is a need for flexibility to review and adjust it as necessary in response to changes in the Council's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree material changes with the Chief Financial Officer and these will be reported to the Committee.
13. Detailed Terms of Engagement covering each audit's scope and any exclusion will be agreed with the relevant risk owners in advance of the audit. The Committee will continue to receive quarterly reports on progress against the plan detailing the audits completed, the category, what opinion was reached and summaries of any high importance recommendations.

Themes emerging in the 2015-16 Plan

14. The Corporate and Departmental Risk Registers, the Council's Strategic Plan and Transformation Programme remain key documents to explaining the Authority's current and future objectives and priorities and what are the key risks to achieving them. A large proportion of the 2015-16 plan will be based on them and especially around the key themes of:
 - a. The continuing impact of significant financial challenges and reductions in net expenditure; risk of failing to achieve savings;
 - b. The need for fundamental transformation of service delivery both front line and support services, enabling working more efficiently and effectively;
 - c. Embracing wider and more complex partnerships and devolved service delivery models, including fundamental shifts in commissioning and outsourcing;
 - d. The impact of major changes in Government policy regarding the provision of health and social care services and children's services;
 - e. Increasing scrutiny and associated costs of protecting vulnerable people
 - f. Failing to plan for demographic changes which are increasing the demand for social care support;
 - g. The risks behind failure to integrate health and social care services;
 - h. Dependency on information technology to support both transformational change and embedded processes;
 - i. The risks of failure to successfully implement financial systems
 - j. Requirements to secure information and data amongst a range of partners and users;
 - k. The requirement to embrace and continuously improve good governance especially requirements of the revised Accounts and Audit Regulations 2015;
 - l. The impacts on staffing resources, including the need for learning and development, support and good management.
 - m. Countering the risk of fraud and corruption
15. A summary plan for 2015-16 is shown at Appendix 1. Only the key control elements of larger corporate risks (i.e. those not covered under other assurances) will be covered. Large scale plans and programmes contain many individual projects and it is too early to identify priorities within them so they are shown as 'bulk' allocations and specific individual audits will be determined quarterly by consultation throughout the year.
16. The plan contains a list of audits discussed with department management and there is an allocation for servicing the corporate client e.g. the HoIAS professional duties and servicing the Corporate Governance Committee, liaison with external auditors, corporate meetings, generic research and advice etc.

17. Internal Audit Plans for organisations for which Leicestershire County Council is the accountable body (Eastern Shires Purchasing Organisation (ESPO), Leicestershire Local Pension Board and Bradgate Park Trust), or a strategic delivery partner (East Midlands Shared Services), are presented to their respective governance forums.
18. LCCIAS contracts commercially with Leicestershire Fire Authority, academy schools and some Leicestershire district councils.

Resource Implications

19. The Service's budget has a further savings target in 2015-16. This translates into a reduced allocation of audit days for the County Council from 1,500 to 1,250 audit days. There will need to be continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency.

Equality and Human Rights Implications

20. There are no discernible Equality and Human rights implications resulting from the audits listed.

Recommendation

21. That the Committee notes the Internal Audit Plan for 2015-16.

Background Papers

The Constitution of Leicestershire County Council

Circulation under the Local Issues Alert Procedure

None.

Officers to Contact

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Appendices

Appendix 1 – Leicestershire County Council Summary internal audit plan 2015-16